

Message Text

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PAGE 01 PARIS 25789 01 OF 03 180259Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 PA-02 SOE-02 DOE-15 /148 W
-----015670 180326Z /13

R 172006Z AUG 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 6234
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 03 PARIS 25789

USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

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SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 24354, AUGUST 3, L978
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PAGE 02 PARIS 25789 01 OF 03 180259Z

SUMMARY

AT THE HEIGHT OF THE TRADITIONAL FRENCH VACATION PERIOD
IN MID-AUGUST, THE WEAKNESS OF THE U.S. DOLLAR ATTRACTED
WIDE ATTENTION AND EXTENSIVE COMMENT IN THE NEWS MEDIA.
THE SHARP TWO PERCENT DROP AGAINST THE FRANC OVER THE

FOUR-DAY FRENCH HOLIDAY WEEK-END WAS RECOVERED BY AUGUST 17. THE LIFTING OF PRICE CONTROLS OF INDUSTRIAL PRICES AT THE PRODUCTION LEVEL WAS FULLY EFFECTIVE BY EARLY AUGUST. ON AUGUST 12 FINANCE MINISTER MONORY UNDERTOOK THE SYMBOLIC STEP OF ESTABLISHING A FREE MARKET FOR BREAD (THE FIRST TIME SINCE THE FRENCH REVOLUTION) AND BAKERY PRODUCTS. INDUSTRIAL PRODUCTION CONTINUED TO STAGNATE IN JUNE; UNEMPLOYMENT INCREASED.

1. WEAKNESS OF THE DOLLAR

FROM AUGUST 2 TO AUGUST 16 THE FRANC GAINED SUBSTANTIALLY AGAINST THE DOLLAR AND WEAKENED VIS-A-VIS THE SWISS FRANC:

PERCENT CHANGE FROM
8/2--16 8/11--16

FRANC AGAINST:

US DOLLAR	PLUS 3.3	PLUS 2.0
POUND STERLING	PLUS 0.5	PLUS 0.7
GERMAN MARK	MINUS 1.6	PLUS 0.3
SWISS FRANC	MINUS 5.3	MINUS 2.7

ON AUGUST 17 THE US DOLLAR RECOVERED SHARPLY, REGAINING THE AUGUST 16 LOSSES. THE SWISS FRANC, HOWEVER, WAS UNCLASSIFIED

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PAGE 03 PARIS 25789 01 OF 03 180259Z

STILL 1.3 PERCENT ABOVE AUGUST 11. MARKET SOURCES INDICATE THAT THE PARIS MARKET FOLLOWS RATHER THAN ACTIVELY INFLUENCES THE INTERNATIONAL MOVEMENTS.

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PAGE 01 PARIS 25789 02 OF 03 180259Z
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R 172006Z AUG 78

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 6235

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

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UNCLAS SECTION 02 OF 03 PARIS 25789

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ACCORDING TO THE SAME SOURCE, PSYCHOLOGICAL ELEMENTS PLAYED A ROLE, FIRST REFLECTING PRESIDENT CARTER'S STATEMENT THAT HIS EFFORTS TO CONTROL INFLATION WERE ALMOST IMPOSSIBLE AND THEN HIS STATEMENT OF AUGUST 16 CALLING ON THE TREASURY AND THE FEDERAL RESERVE TO FIND A MEANS OF SUPPORT FOR THE DOLLAR. VOLUME OF TRADING, WHILE LARGER THAN NORMAL IN MID-AUGUST, IS NERVOUS BUT COULD NOT BE CONSIDERED FEVERISH.

2. VOLUME OF GOLD TRADING LOW

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PAGE 02 PARIS 25789 02 OF 03 180259Z

THERE WAS NO TENSION ON THE PARIS GOLD MARKET, AND THE VOLUME REMAINED LOW. INGOT PRICES FREQUENTLY ARE SLIGHTLY BELOW THOSE QUOTED IN LONDON (ON AUGUST 16 \$213.58 PER OUNCE COMPARED WITH \$215.70 IN LONDON). PRICES DROPPED SHARPLY ON AUGUST 17 (\$207.16 PER OUNCE).

3. PARIS STOCK EXCHANGE LEVELLED OFF

THERE WERE NO UP OR DOWNWARD MOVEMENTS ON THE PARIS BOURSE IN THE REPORTING PERIOD, AND AVERAGE PRICES OF SHARES REMAINED ABOUT THE SAME (PLUS 0.5 PERCENT DURING THE PAST TWO WEEKS). OPERATORS APPEAR TO HAVE TAKEN A WAIT-AND-SEE ATTITUDE REGARDING THE OVERALL ECONOMIC SITUATION.

4. MONEY MARKET STABLE

CALL MONEY RATES CONTINUED IN THE 7-1/8--7-3/8
RANGE WITH A SLIGHT TENDENCY TO TIGHTEN UP AS SETTLEMENT
DAY (AUGUST 21) APPROACHES.

5. GOVERNMENT ACCELERATED DECONTROLLING OF INDUSTRIAL
PRICES

ECONOMIC MINISTER MONORY ANNOUNCED ON AUGUST 9 THAT ALL
INDUSTRIAL PRICES ON THE PRODUCER LEVEL ARE NO LONGER
UNDER CONTROL, WITH THE EXCEPTION OF ENERGY (INCLUDING
GASOLINE, FUEL, GAS, ETC.), MOST PHARMACEUTICAL PRODUCTS,
AND NEWSPRINT. THUS, WITHIN A RELATIVELY SHORT PERIOD
OF TIME THE FRENCH GOVERNMENT DID AWAY WITH A LARGE
NUMBER OF CONTROLS IN A SECTOR OF ACTIVITY WHERE
INTRICATE RULES AND REGULATIONS WERE PREVALENT AND PRICE
LIBERTY AN EXCEPTION. AT THE SAME TIME MR. MONORY
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PAGE 03 PARIS 25789 02 OF 03 180259Z

STATED THAT THE SECOND STEP OF RESTORING PRICE LIBERTY
NOW CONCERNS SERVICES AND DISTRIBUTION. HE RECOGNIZED
THAT THE MEASURES TO BE TAKEN IN THESE SECTORS ARE MORE
COMPLICATED AND WOULD TAKE LONGER TO ACCOMPLISH. AS A
FIRST MEASURE IN THIS DIRECTION, HE TOOK THE SYMBOLIC
STEP TO LIFT PRICE CONTROLS ON BREAD AND ALL OTHER
BAKERY PRODUCTS. THE PRICE OF BREAD HAS BEEN UNDER
GOVERNMENT CONTROL SINCE JULY 19, 1791. ALTHOUGH
THE FRENCH CONSUME LESS THAN HALF AS MUCH BREAD AS AT
THE TIME OF THE REVOLUTION, IT IS STILL A SUBJECT OF
POLITICAL CONTROVERSY. IT IS SUFFICIENT TO RECALL THE
"CROISSANT WAR" LESS THAN ONE YEAR AGO WHEN PRIME R
MINISTER BARRE UNSUCCESSFULLY ATTEMPTED TO FIX CEILING
PRICES FOR SEVEN BAKERY PRODUCTS WHICH PROVOKED HOSTILE
REACTIONS ON THE PART OF THE BAKERS.

6. INDUSTRIAL PRODUCTION CONTINUED TO DECLINE

THE JUNE INDUSTRIAL PRODUCTION INDEX (EXCLUDING
BUILDING) WAS 126 (1970 100), 0.8 PERCENT BELOW MAY,
THE SAME LEVEL AS IN JANUARY 1978 AND 1.6 PERCENT
BELOW JUNE 1977. ON A THREE MONTH MOVING AVERAGE, THE
LEVELLING OFF OF INDUSTRIAL PRODUCTION BECOMES APPARENT:

FEBRUARY-MARCH-APRIL	128
MARCH-APRIL-MAY	129
APRIL-MAY-JUNE	128

THE MAY AND JUNE DECLINES GO ACROSS THE BOARD OF
ACTIVITIES WITH NO NOTEWORTHY EXCEPTIONS.

7. UNEMPLOYMENT UP FURTHER IN JULY

THE NUMBER OF JOB SEEKERS ROSE BY 55,000 TO 1,094,000 IN JULY. ONE YEAR AGO, DURING THE CORRESPONDING PERIOD, THE RISE WAS ONLY 36,000 TO 1,004,000 FROM JUNE TO JULY.
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PAGE 04 PARIS 25789 02 OF 03 180259Z

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PAGE 01 PARIS 25789 03 OF 03 180300Z
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UNCLAS SECTION 03 OF 03 PARIS 25789

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DATA CORRECTED FOR SEASONAL VARIATIONS ARE NOT YET AVAILABLE.

8. DROP IN PRICES OF IMPORTED RAW MATERIALS

ACCORDING TO INSEE PRICES OF IMPORTED RAW MATERIALS
DROPPED BY 6.8 PERCENT IN JULY, 11.6 PERCENT BELOW 1977.
THE DROP PROBABLY REFLECTS, IN PART, THE DECLINE OF THE
U.S. DOLLAR VIS-A-VIS THE FRENCH FRANC.

9. VALUE OF FRENCH OIL IMPORTS DECLINED
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PAGE 02 PARIS 25789 03 OF 03 180300Z

DURING THE FIRST HALF OF 1978 FRENCH OIL IMPORTS
TOTALLED F 27.6 BILLION, 2.5 PERCENT BELOW THE FIRST
HALF OF 1977, REFLECTING THE RELATIVE WEAKNESS OF THE
US DOLLAR AND SLOW INDUSTRIAL GROWTH.

10. FINAL BALANCE OF PAYMENTS DEFICIT FOR 1977
REVISED UPWARDS

THE ECONOMICS MINISTRY PUBLISHED REVISED DATA FOR THE
1977 BALANCE OF PAYMENTS:

BILLIONS OF FRANCS	
1976	1977

MERCHANDISE ACCOUNT	MINUS 22.7	MINUS 13.4
NET SERVICES	PLUS 4.5	PLUS 10.1
NET TRANSFERS	MINUS 10.9	MINUS 12.8
CURRENT ACCOUNT BALANCE	MINUS 29.1	MINUS 16.1

LONG TERM CAPITAL	MINUS 5.3	PLUS 0.7
SHORT TERM CAPITAL	PLUS 11.3	PLUS 7.3
TOTAL CAPITAL MOVEMENTS	PLUS 6.0	PLUS 8.0

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LEADS AND LAGS	MINUS 1.6	PLUS 13.1
ERRORS AND OMISSIONS	PLUS 5.6	PLUS 4.1

BALANCE	MINUS 19.1	PLUS 9.1
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PAGE 03 PARIS 25789 03 OF 03 180300Z

OTHER REPORTS SUBMITTED DURING THE PERIOD:

TELEGRAMS

25436 NEW SOVIET TAX DECREE

AIRGRAMS

A-2LL AND A-215 FRENCH FOREIGN EXCHANGE HOLDINGS

A-214 FRENCH RESERVES IN JULY 1978

A-221 FRENCH BALANCE OF PAYMENTS

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